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SUBJECT: GOLD, GULAG AND GEOGRAPHY DEFINE MAGADAN

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11. (U) Summary: With a region half the size of Alaska and a population of only 170,000, the Magadan region has big challenges. First is finding enough skilled labor to exploit the gold, silver and other mining riches of its vast territory. The mines operate year round, even when temperatures hit minus 55 degrees Centigrade. Another challenge is finding ways to diversify the economy. Tourism, fishing, and now oil and gas are sectors that Magadan officials hope will provide more jobs and opportunities. For now, gold is the key industry. Interestingly, at a refinery outside of Magadan, high tech equipment from the United States turns Russia's crown jewels into gold bars for shipment to Russian banks. End Summary.

EMPLOYMENT

12. (U) Consul General and Foreign Commercial Service Assistant met with Magadan Oblast Governor Nikolay Nikolayevich Dudov and other leading officials January 21 - January 24. The closer to federal money, the more optimistic officials were about Magadan's prospects. Officials reliant on local revenues were much more cautious about Magadan's prospects, with one official saying the region is "still in the Stone Age." All officials agree that success in part rests on bringing Russians back and other workers in to improve the employment pool. The city has made some infrastructure improvements, including building new indoor hockey and soccer facilities, and a new ski base is being constructed. One hundred percent of the quota allowed for foreigner workers is used every year, but as with all quotas in the Far East, the numbers are determined as much by political considerations as by the needs of employers. Also hampering employment is the fact that pensioners comprise forty percent of the population. The Center for Civic Initiatives, formerly the American Resource Center, does promote business and youth programs to keep young people in the region, and has micro credit available for small businesses. But even University officials admit that the region has to do a better job tailoring educational programs to available jobs.

GOLD

13. (U) This year gold mining numbers fell somewhat, but Magadan still has investments in gold in the billions and some of the most lucrative mines in the world, excavating tons of gold every year. Magadan's Polymetal, for example, is the world's number three gold producer. American equipment is used in the extraction and refinery processing, with the high tech refining done almost exclusively with American equipment, from the ovens that melt the gold to be poured into bricks worth over \$300,000, to the analyzers that measure the gold's purity. Heavy equipment from Caterpillar is also used, but local businessmen complained bitterly that Caterpillar's "fifth generation" technology is too complicated and computerized and even more importantly is twenty percent more expensive than Komatsu.

Mining officials like to split their fleet of heavy equipment between American and Japanese providers, to avoid letting either one have a monopoly, but Caterpillar is in danger of losing the market according to our contacts. The mines operate year round, with workers filling shifts with 15 days on at the gold mine, and 15 days off in Magadan. Despite the cold temperatures, we were told that the "people are tougher than equipment" and they tend to keep working, even when the equipment is breaking down. Workers at the gold and silver refinery are allowed to retire early because of the health dangers of working with the heavy metals and they are given special allowances.

OIL AND GAS, RAILROADS AND TUNNELS

14. (U) Magadan has also been talked about as the future headquarters of international oil and gas companies, if drilling off the coast in the Sea of Okhotsk yields expected results. Another big ticket project is finally linking Magadan with the outside world by rail. Magadan is linked to Yakutia by road, the so called "road of bones" built by GULAG prisoners, but there is no rail link yet. That ambitious project may also be fulfilled as part of the Russian Far East development plan. The city is supplied through the port, which operates year round thanks to ice breakers. Even more ambitious is the idea that Russia's mineral riches could be sent to North American markets via a tunnel from the Far East to Alaska. Officials put that in the category of a plan for their "grandchildren and great grandchildren."

ALASKA LINKS

15. (U) Alaska has business, cultural and educational links with Magadan, most of which are much less active than during the heydays of the 1990's, but delegations continue to go back and forth despite the logistical challenges. In the 90's there were flights from Anchorage to Kamchatka and Magadan. The international airport is ready to handle all types of aircraft, but for now the revitalization of air links between the U.S. and

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RFE does not include a stop in Magadan, although American charters and the occasional Cessna do land at the airport. With Anchorage only a couple of hours away by plane, it is difficult for travelers to make arrangements to visit their neighbor, since it inevitably involves complicated itineraries through Vladivostok or Khabarovsk, Seoul, and Seattle.

CITY ISSUES

16. (U) For the city, the number one challenge is housing. City officials are also frustrated by the lack of a decent hotel and requested information on American hoteliers. Officials also expressed interest in the FCS client "Snow Dragon" since they said their snow removal equipment is totally inadequate for the sub arctic region. The city also sees a small role for tourism based on its grim history as the last link in the GULAG chain. The two million dollar "Mask of Sorrows" sits on a hill overlooking the city and a fine museum features artifacts from the GULAG days, including stories written by using knots in string when pen and paper were forbidden or unavailable. City officials say tourists visit Alcatraz, why not Magadan?

PORT AND SPECIAL ECONOMIC ZONE

17. (U) Magadan has a special economic zone with taxes charged on profits only and no import tax. The zone is open to all who register. The port is privately operated. Port officials believe a line to the United States would be successful, given the American goods that make their way to Magadan via Pusan and Vladivostok. As with the air links, there were shipping companies operating directly from the U.S. to Magadan in the 1990's.

NO KLONDIKE

18. (U) Comment: Magadan's isolation presents real challenges,

but the riches of the Kolyma region will continue to be tapped, hopefully with continuing involvement of American firms experienced in the mining sectors. Magadan residents have warm feelings for Americans, especially their Alaskan neighbors, and the number of people who have been to the U.S., under SABIT programs, exchange programs, and even as tourists is surprising.

If one looks at the economic prospects in the long term, they are relatively bright. Certainly better than the late 1990's when Alaska was sending much needed humanitarian aid. But as one official put it: "There will be no Klondike in the next five years." Just steady hard work, something the people of Magadan are very familiar with.

ARMBRUSTER